

Determinants Of Demand For Islamic Banking Services: A Survey On Moslem Public Servants In Indonesia

Ni Nyoman Sawitri¹, Erie Febrian²

Abstract

There have been many studies empirically investigating behavior of customers in using Islamic Bank services, particularly in Islamic economies. Nevertheless, there have been no studies conducted to explain behavior of Muslim customers in using the service as a response to Muslim religious leader's Fatwa, and more conducive regulation. This study is aimed at revealing the determinants of demand for Islamic Banking services in a Muslim environment. This study empirically investigates the decision determinants among moslem public servants in Indonesia in using Islamic Bank services. We study some variables related to general and specific motivations of fulfilling banking needs through Islamic bank. We employ Partial Least Square to answer the research questions. We find that service accessibility, information technology-based product and product knowledge are main concerns of the customers. Religious factors are not significant driver. Government and private sector support are important determinants.

Keywords: Islamic Bank service; Public servants

INTRODUCTION

Islamic banking and finance is quite developed in countries like Malaysia, Indonesia, Pakistan and Bangladesh nowadays. Islamic Financial Services Industry Stability reported in 2016 that Islamic bank assets in Middle East and North Africa (MENA) countries (extending from Morocco to Iran) reached USD 607.5 billion, which was 40% of the total Islamic bank asset in the world. This figure was the largest worldwide. Meanwhile, asset of Islamic bank in Asia was only USD 209.3 billion or approximately 14% of the world's Islamic bank asset.

Indonesia, an Asian economy and a country with the world's largest Muslim population, has not been able to significantly contribute to the growth of total world's Islamic bank asset. Surprisingly, market share of Islamic banks in Indonesia continues low while around 87.2% (or 225 million) of the population adheres to Islam. Assets managed by Islamic banks in Indonesia have accounted for no more than 5% of the nation's total banking assets since the initiation of first Islamic bank in 1992. This astonishing contrast indicates at least 2 points, i.e., the poor development of Islamic banking industry and stumpy consciousness of Islamic banking among Muslims in the country.

¹ Corresponding author :

Ni Nyoman Sawitri. Email : <ninyoman.sawitri@gmail.com>

¹ Universitas Trilogi, Indonesia

² Universitas Padjadjaran, Indonesia

Many studies have been conducted to empirically reveal factors determining the use of Islamic bank services in Muslim countries. They investigate motives for Islamic bank service use in Malaysia (Ahmad & Haron, 2002; Dusuki, 2007; Haron et al 2008; Amin et al, 2011; Abdullah et al, 2012), Bangladesh (Khan, 2007), Bahrain (Al-Ajmi et al, 2009), Pakistan (Kattak, 2010; Awan and Bukhari, 2011; Hasan et al, 2012), Turki (Okumus and Genc, 2013), and Indonesia (Kasri and Kassim, 2009). The aforementioned research try to explain motives for the use of different products of Islamic banks, impact of various Islamic bank circumstances on customer behavior, and other similar issues.

Nevertheless, there have been no studies conducted to explain behavior of Muslim customers in using the Islamic bank service, as an alternative to conventional bank service, to respond the fatwa of Indonesian Council of Ulama, and other conducive regulation. Stakeholders need to know the factors that motivate customers to use the services of Islamic banks in Indonesia, especially regulators. With adequate and accurate information, all parties related to efforts to develop the Islamic banking industry can improve their efforts so that this industry achieves its potential.

Session 2 of this paper describes motives for the use of financial service. Session 3 briefly explain the research process. Session 4 elaborates the results and finding of the research. The last session simply show conclusion of the study.

LITERATURE REVIEW

The advancement of IT has been well occupied in any industry to attract the targeted customers. IT-based bank service enables customers to satisfy their banking needs easily. Business competition in banking industry has been determined by the banks' capability in adopting and providing information technology-based services. Some previous studies, such as Moewes et al (2011), Agwu and Carter (2018) prove that IT-based services have been developed to be source of attractiveness and key driver to customers' choice in the industry. This variable can be crucial motivation whether or not to use the service of Islamic bank.

In addition, service accessibility has been well recognized as important source of advantage of banking industry. Spencer et al (2010) suggest that number of bank branches explains service accessibility and may stimulate customers' satisfaction. This conclusion is supported by Shanka (2012). They further suggest that poor service access can be source of bank customer dissatisfaction and may lead to switch. Banking service is crucial need in modern society. Nevertheless, Islamic bank service cannot be easily accessed in countries where Islamic bank have small market share. Due to the limited number of customers, it is difficult for Islamic banks to achieve economies of scale and the provision of services network is expensive.

The next factor is service knowledge. Servon and Kaestner (2008) suggest that product or service knowledge is decisive to the customer in financial service industry. Mason (2017) and Shanka (2012), among others, support the conclusion. Bank service vary and customers have to decide service types that meet their banking needs. Even in Islamic economies, Islamic bank products are not popular among Muslims. Islamic banks' spending on advertising has been less significant due to poor scale of economy.

The fourth variable that may influence public intention and, in turn, their demand for Islamic bank service is government support to the industry. Abedifar, Molyneux and Tarazi (2015) suggest that as a highly regulated industry, banking requires the role of government in preventing bank failure and reducing systemic. The government may provide sufficient direction to the market to develop and the industry to grow (Bart, Caprio, and Levine, 2013). Islamic bank service is less popular in some markets and may necessitate protection. Sound Islamic banking would encourage positive market response, which has been proven in Malaysia (Lai & Samers, 2017).

The last determinant to Islamic banking preference is religiosity. This factor has been investigated in many Muslim countries, including Ahmad et al (2008), Khraim (2011), Alam et al (2012), Souiden and Rani (2012), Abduh and Omar (2012), among others. Nevertheless, it is interesting to investigate market reaction to the order (*fatwa*) of *Majelis Ulama* (Board of Islam Leader) in banking. Theoretically, this order directs the market to Islamic banks. In fact, in Indonesia, for instance, the order has been released since 2004, and Islamic bank market share has been less than 5% since then.

The aforementioned variables can be significant factors to demand for Islamic bank service. The variables can also only contribute to the personal interest to the Islamic bank operation. In this context, market require sometime before switching to Islamic bank service due to some factors. They are personally proponent of Islamic bank, but have not switched to the bank service for several personal reasons.

RESEARCH METHOD

This research uses purposive sampling and quantitative research methods. The samples are Islamic bank customers spread in various cities of West Java. Data collection was conducted through a survey with questionnaires to 150 respondents and interviews. A total of 126 responses to the questionnaire were then processed in this research. The concept of this research variable is described in Table 1. Empirical data collected were then analyzed with Partial Least Square (PLS). Furthermore the standardized solution value of each latent variable will be calculated, followed by the test of significance.

Table 1 : Variables Detail

Variable	Dimension	Scale
IT-based service (X ₁)	Smartphone service (X ₁₁)	Ordinal
	Internet-based service(X ₁₂)	
Service accessibility (X ₂)	No of ATM (X ₂₁)	
	No of Branch (X ₂₂)	
Service knowledge (X ₃)	Investment (X ₃₁)	
	Financing (X ₃₂)	
Government support (X ₄)	Regulation (X ₄₁)	
	Facility (X ₄₂)	
Religiosity (X ₅)	Usury destruction (X ₅₁)	
	Obedience to Fatwa (X ₅₂)	
Personal interest (Y ₁)	Belief in Islamic Finance (Y ₁₁)	
	Belief in Islamic Banking (Y ₁₂)	
Demand for iB service (Z ₁)	Switch to Islamic financing (Z ₁₁)	
	Switch to Islamic saving/deposit (Z ₁₂)	
	Switch to any other Islamic bank services (Z ₁₃)	

RESULTS AND DISCUSSION

Table 2 ; Outer Loading

Matrix	demand for IB service	Govt. support	IT-based service	Personal interest	Religiosity	Service accessibility	Service knowledge
dis1	0.972						
dis2	0.966						
dis3	0.962						
gs1		0.940					
gs2		0.946					
is1			0.951				
is2			940				
pss1				0.953			
pss2				0.953			
r1					0.961		
r2					0.400		
sa1						0.955	
sa2						0.953	
sk1							0.879
sk2							-0.597

Source: processed data

Table 2 shows outer loadings as the convergent validity indicator of measurement model. In this study, two outer loading scores of the construct are below 0.7, a standard accepted by most of academicians (Chin, 1998). They are construct of r2 (religiosity 2) and sk2 (service knowledge 2). Therefore, construct r2 and sk2 indicate poor convergent validity indicators. These constructs are then eliminated and discarded form the next step, hypothesis testing, to ensure the strong validity of the study results.

Table 3 shows results of cross loading (discriminant validity) calculation. The results indicate that all variables tend to have the highest correlation with themselves, compared to correlation with other variables. The results indicate that discriminant validity requirement in the research is fulfilled.

Table 3 : Discriminant Validity

Variable	Z	X ₄	X ₁	Y	X ₅	X ₂	X ₃
Demand for iB service (Z ₁)	0.967						
Government support (X ₄)	0.929	0.943					
IT-based service (X ₁)	0.942	0.919	0.946				
Personal interest (Y ₁)	0.967	0.962	0.955	0.953			
Religiosity (X ₅)	0.089	0.054	0.054	0.043	0.736		
Service accessibility (X ₂)	0.954	0.938	0.945	0.984	0.039	0.954	
Service knowledge (X ₃)	0.206	0.205	0.203	0.199	0.140	0.178	0.751

Source: processed data

Reliability of the measurement model is indicated by scores of Cronbach Alpha and Composite Reliability. Most of the scores exceed the standard, i.e., 0.40 (Lai & Fan, 2008; Vinzi et al., 2010), 0,60 (Werts et al., 1974), 0.70 (Chin, 1998).

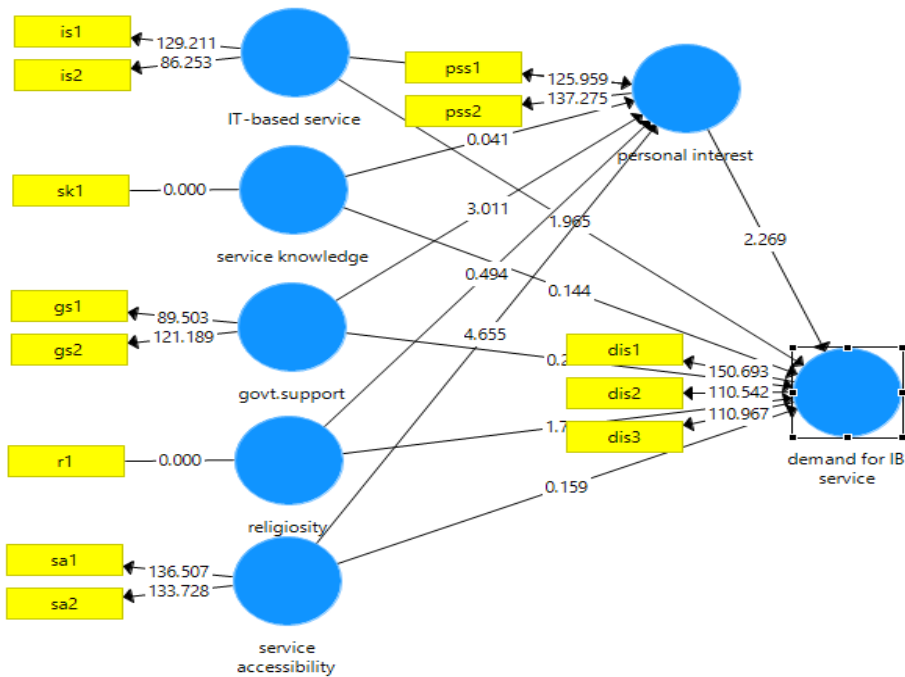


Figure 1 : Final Model (Source: processed data)

Since outer loading scores of construct r2 (religiosity2) and sk2 (service knowledge2) are less than 0.7, the constructs are not included in the bootstrapping process. The bootstrapping result is demonstrated in Table 4 and Figure 1.

Path coefficients on Table 4 show that all independent variables significantly contribute to interest of respondents in Islamic bank (at $\alpha = 1\%$), except religiosity and service knowledge. In addition, all independent variables show significant influence on demand for Islamic Bank service, except service accessibility and service knowledge. The intervening variable, personal interest, also proves crucial contribution to demand for Islamic bank service, which is significant at $\alpha = 5\%$.

Table 5 shows whether independent variable can directly influence dependent variable (quasi mediating) or have to go through the intervening variable (full mediating). Government support, and service accessibility are variables that cannot be effective to demand for Islamic bank service when personal interest does not intervene, as the two variables do not directly influence the dependent variable.

Finally, independent variables significantly contribute to personal interest and demand for Islamic bank service. Even scores of R-square Adjusted is higher than 0.9. The observed independent variables dominate both personal interest and demand for Islamic bank service.

Table 4 : Path Coefficient

	Original Sample	P-values
Government Support → Demand for IB Service	-0.027	0.836
Government Support → Personal interest	0.290	0.003***
IT-based service → Demand for IB Service	0.201	0.050**
IT-based service → Personal interest	0.052	0.003***
Personal interest → Demand for IB Service	0.757	0.024**
Religiosity → Personal interest	-0.005	0.622
Religiosity → Demand for IB Service	0.046	0.073*
Service accessibility → Personal interest	0.568	0.000***
Service accessibility → Demand for IB Service	0.004	0.873
Service knowledge → Personal interest	-0.001	0.967
Service knowledge → Demand for IB Service	-0.002	0.886
*)significant at $\alpha=10\%$ **)significant at $\alpha=5\%$ ***)significant at $\alpha=1\%$		

Source: processed data

Table 5 : Total Effects

Variable	Personal Interest (P values)	Demand for IB Service (P values)
Government support	0.290 (0.003)	-0.027 (0.836)
IT-based service	0.152 (0.003)	0.201 (0.050)
Service accessibility	0.568 (0.000)	0.042 (0.873)
Service knowledge	0.001 (0.967)	0.004 (0.886)
Religiosity	-0.005 (0.622)	0.046 (0.073)
Personal interest		0.757 (0.024)

Source: processed data

Table 6 : R-Square and R-Square Adjusted

Independent Variable	R-square	R-square Adjusted
Demand for IB service	0.941	0.937
Personal interest	0.983	0.982

Source: processed data

DISCUSSION

The results of the statistical process above show that government support is not enough to stimulate demand for Islamic banking services in Indonesia. So far the government has issued more policies that regulate the supply side, compared to the demand side. Likewise, no study has comprehensively examined the demand side of the Islamic banking industry. Some academics consider that the government should help the incubation process of the Islamic banking business in the first 5-year phase, for example by distributing salaries of Muslim public servants through Islamic banks. As a result, even though it has been operating since 1992, the share of Islamic banking assets in Indonesia has never exceeded 5.5%. Further impact, government support through the Financial Services Authority and the central bank was welcomed skeptically by the market. Even Indonesia's first Islamic bank experienced serious problems.

On the other hand, religiosity was found not to have a significant effect on the financial behavior of Muslim public servants in Indonesia. Therefore, even though there are already religious edicts that forbid usury, there does not appear to be a shift in the use of bank services from Islamic banks to conventional banks among Muslim customers. These customers do not consider the concepts in Islamic teachings in their banking activities, so encouraging other variables, namely Service knowledge, does not affect public servants' personal demand for Islamic Bank Service.

Besides the low share of sharia banking assets and inconsistent with its market potential, weak government support and low levels of religiosity among Muslims make it difficult for Islamic banks to achieve the expected economies of scale. Furthermore, Islamic banks find it difficult to develop a service network. In fact, on the one hand, experts often mention that the limitations of the service network discourage Muslims to use Islamic banking services.

Therefore, the Indonesian government, assisted by other stakeholders (scholars and universities), must make a change of approach in initiating the development of Islamic banking in this world's largest Muslim country. The approach to potential markets needs to be improved. The focus of fundamental studies must be shifted, from the focus of supply to the focus of demand.

CONCLUSION

Many studies have been conducted to investigate behavior of public servant customers in using Islamic Bank services. However, there has been insufficient number of study explaining behavior of Muslim customers in using the service as a response to Muslim religious leader's Fatwa. This study is aimed at revealing the determinants of demand for Islamic Banking services in a Muslim environment.

The study finds that all independent variables significantly contribute to interest of respondents in Islamic bank, except religiosity and service knowledge. Moreover, all independent variables show significant influence on demand for Islamic Bank service, except service accessibility and service knowledge. Government support, service accessibility, and service knowledge contribute to demand for Islamic bank service through personal interest. It is worth noting that religiosity is not powerful driver to the use of Islamic bank service.

REFERENCES

- Abduh, M., & Omar, M. A. (2012). ISLAMIC-BANK SELECTION CRITERIA IN MALAYSIA: AN AHP APPROACH. *Business Intelligence Journal* (19182325), 5(2).
- Abdullah, A. A., Sidek, R., & Adnan, A. A. (2012). Perception of Non-Muslims Customers towards Islamic Banks in Malaysia. *International Journal of Business and Social Science*, 3(11), 151-163
- Abedifar, P., Ebrahim, S. M., Molyneux, P., & Tarazi, A. (2015). Islamic banking and finance: Recent empirical literature and directions for future research. *Journal of Economic Surveys*, 29(4), 637-670.

- Ahmad, N., & Haron, S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services. *International Journal of Islamic Financial Services*, 3(4), 13-29.
- Ahmad, A., Saif, I., & Safwan, N. (2010). An empirical investigation of Islamic banking in Pakistan based on perception of service quality. *African journal of business management*, 4(6), 1185.
- Al-Ajmi, J., Abo Hussain, H., & Al-Saleh, N. (2009). Clients of conventional and Islamic banks in Bahrain: How they choose which bank to patronize. *International Journal of Social Economics*, 36(11), 1086-1112.
- Alam, S. S., Janor, H., Zanariah, C. A. C. W., & Ahsan, M. N. (2012). Is religiosity an important factor in influencing the intention to undertake Islamic home financing in Klang Valley. *World Applied Sciences Journal*, 19(7), 1030-1041.
- Amin, H., Rahim Abdul Rahman, A., Laison Sondoh Jr, S., & Magdalene Chooi Hwa, A. (2011). Determinants of customers' intention to use Islamic personal financing: The case of Malaysian Islamic banks. *Journal of Islamic Accounting and Business Research*, 2(1), 22-42.
- Agwu, E., & Carter, A. L. (2018). Mobile phone banking in Nigeria: benefits, problems and prospects.
- Awan, H. M., & Shahzad Bukhari, K. (2011). Customer's criteria for selecting an Islamic bank: evidence from Pakistan. *Journal of Islamic Marketing*, 2(1), 14-27.
- Barth, J. R., Caprio Jr, G., & Levine, R. (2013). Bank Regulation and Supervision in 180 Countries from 1999 to 2011. *Journal of Financial Economic Policy*, 5(2), 111-219.
- Bloom, C., & Binder, C. (1989). Fluent product knowledge: Application in the financial services industry. *Performance Improvement*, 28(2), 17-21.
- Eisingerich, A. B., & Bell, S. J. (2008). Perceived service quality and customer trust: Does enhancing customers' service knowledge matter?. *Journal of service research*, 10(3), 256-268.
- Gerrard, P., & Barton Cunningham, J. (2004). Consumer switching behavior in the Asian banking market. *Journal of Services Marketing*, 18(3), 215-223.
- Haron, S., & Nursofiza Wan Azmi, W. (2008). Determinants of Islamic and conventional deposits in the Malaysian banking system. *Managerial Finance*, 34(9), 618-643.
- Howcroft, J. B. (1993). Branch networks and alternative distribution channels: threats and opportunities. *International Journal of Bank Marketing*, 11(6), 26-31.
- Islam, Z., Ahmed, S., & Hasan, I. (2012). Corporate social responsibility and financial performance linkage: Evidence from the banking sector of Bangladesh.
- Kasri, R., & Kassim, S. H. (2009). Empirical determinants of saving in the Islamic banks: Evidence from Indonesia.
- Khan, M. S. N., Hassan, M. K., & Shahid, A. I. (2007). Banking behavior of Islamic bank customers in Bangladesh. *Journal of Islamic Economics, Banking and Finance*, 3(2), 159-194.
- Khattak, N. A. (2010). Customer satisfaction and awareness of Islamic banking system in Pakistan. *African Journal of Business Management*, 4(5), 662.
- Khraim, H. (2010). Measuring religiosity in consumer research from an Islamic perspective. *Journal of Economic and Administrative Sciences*, 26(1), 52-78.
- Lai, K. PY, & Samers, M. (2017). Conceptualizing Islamic banking and finance: A comparison of its development and governance in Malaysia and Singapore. *The Pacific Review*, 30(3), 405-424.

- Liao, H. H., Chen, T. K., & Lu, C. W. (2009). Bank credit risk and structural credit models: Agency and information asymmetry perspectives. *Journal of Banking & Finance*, 33(8), 1520-1530.
- Levesque, T., & McDougall, G. H. (1996). Determinants of customer satisfaction in retail banking. *International Journal of Bank Marketing*, 14(7), 12-20.
- Mason, R. O. (2017). Four ethical issues of the information age. In *Computer Ethics* (pp. 41-48). Routledge.
- Meuter, M. L., Ostrom, A. L., Roundtree, R. I., & Bitner, M. J. (2000). Self-service technologies: understanding customer satisfaction with technology-based service encounters. *Journal of marketing*, 64(3), 50-64.
- Okumus, H. S., & Genc, E. G. (2013). Interest free banking in Turkey: a study of customer satisfaction and bank selection. *European Scientific Journal, ESJ*, 9(16).
- Servon, L. J., & Kaestner, R. (2008). Consumer financial literacy and the impact of online banking on the financial behavior of lower-income bank customers. *Journal of Consumer Affairs*, 42(2), 271-305.
- Shanka, M. S. (2012). Bank service quality, customer satisfaction and loyalty in Ethiopian banking sector. *Journal of Business Administration and Management Sciences Research*, 1(1), 001-009.
- Souiden, N., & Rani, M. (2015). Consumer attitudes and purchase intentions toward Islamic banks: the influence of religiosity. *International Journal of Bank Marketing*, 33(2), 143-161.
- Spencer, R., Camps, T., Burchett, C., Gagné, B., & Madge, R. (2010). *U.S. Patent Application No. 12/451,909*.
- Wajdi Dusuki, A., & Irwani Abdullah, N. (2007). Why do Malaysian customers patronise Islamic banks?. *International Journal of Bank Marketing*, 25(3), 142-160.